

MACROECONOMICS AT WORK EXERCISE

UNEMPLOYMENT AND THE DEMAND FOR LABOUR

REFERENCE: 'Jobs: Back to the Future' (by James McCullough), *The Courier-Mail*, 13 July 2002, pp. 69, 70.

CHAPTERS RELEVANT TO THIS EXERCISE: Chapters 8, 16.

OVERVIEW

A private economic consulting group has recently forecast that unemployment in Australia would fall to 5.5 per cent by 2003. This figure would be the lowest rate of unemployment for over a quarter of a century. Since 1977 (see the graph in the article) the level of unemployment has been significantly above this figure (reaching double figures in the early 1980s and early 1990s). It has been below 7 per cent only for a brief period in the late 1980s and since 1998. The prediction is that the latest downward trend will continue.

While the trend will be influenced by monetary policy (specifically with respect to interest rates), the general outlook is regarded by many commentators as favourable.

The *aggregate* level of unemployment (i.e. for the economy as a whole), however, will be an average of widely varying rates between employment levels in different industries and among employees with different skills. For example, it is anticipated that a high level of demand for labour in the *building* industry will continue, although this will depend on monetary policy (i.e. a significant increase in interest rates would be likely to 'choke off' the property boom). On the other hand, the article notes a 'serious deterioration' in the *information technology, finance and insurance, and communications* markets where the demand for labour has actually fallen and the number of jobs has declined.

'So where *are* the jobs?', it is asked. The *hospitality, retail and services industries*, along with *call centres and construction*, have been identified as areas where demand for products has led to increasing demand for labour. In addition, a particular demand has been identified for 'multi-skilled' labour to work as managers who can understand a business 'from the shop floor up'.

QUESTIONS

1. What explains the downward trend in unemployment over recent years?
2. What circumstances would be favourable, and what unfavourable, to a continuation of this trend? In particular, how would changes in interest rate policy affect levels of unemployment?

3. In what industries, according to the article, is the demand for labour increasing, and in what industries is it decreasing?
4. What do you think is meant by 'multi-skilled' labour, and what is the reasoning underlying a strong demand for multi-skilled employees?